

FEMSA

Quarterly Report

February 28, 2020

Proximity offset margin pressure in KOF and Health

- Femsa reported neutral results in line with our operating estimates. Proximity (Oxxo) and Health divisions maintained solid revenue growth, which compensated a sales decline in Fuel division
- Oxxo and Oxxo gas profitability improvement stood out due to a better sales mix, operating efficiencies, and IFRS 16 positive impact. The latter offset margin pressure in **KOF** and in drugstores

Revenue posted mid-single digit growth. Despite a challenging economic environment, revenue increased 5.7% y/y. By division, proximity posted a 10.6% growth (SSS +5.5%) boosted by a 7.8% increase in the average ticket and 490 new openings. In Health, sales grew 12.5% (SSS -12.2%) due to an easy comparable basis and the opening of 31 new drugstores. In fuel, revenue decreased 3.2% (SSS -5.5%) affected by a 5.9% volume decline and lower than expected Oxxo gas openings. On the other hand, KOF reported a 3.1% y/y revenue increase. Regarding operating cash flow, it grew 16.5% y/y supported by a better sales mix in Oxxo stores, operating efficiencies in Oxxo gas and IFRS 16 benefit. However, in an adjusted basis, EBITDA increased 1.8% y/y with a 60bp margin contraction to 16.0%. Profitability levels in Proximity (18.1%) and Fuel divisions (4.2%) improved by 30bp and 60bp, respectively. Meanwhile, Fuel margins declined by 50bp to 10.0% because of a lower operating leverage explained by lower sales in Chile. Finally, KOF's profitability decreased by 250bp to 18.2%. Net income fell 54.8% y/y affected by FX losses and a difficult comparable basis related to the sale of the operations of KOF's Philippines business.

Valuation remained at stable levels. After this report, FV/EBITDA LTM multiple remained at 10.4x. Going forward, we will be focused on digital strategy and traffic dynamics in Proximity, as well as profitability levels in Health and station openings in Fuel division.

Financial Statements

	2018	2019	2020E	2021E
Revenue	483,513	506,910	548,683	593,800
Operating Income	42,184	47,165	48,154	49,825
EBITDA	61,927	75,483	78,325	82,982
EBITDA Margin	12.8%	14.9%	14.3%	14.0%
Net Income	24,084	19,936	20,745	34,091
Net Margin	5.0%	3.9%	3.8%	5.7%
Total Assets	576,381	637,541	652,124	651,329
Cash	62,047	65,562	68,434	55,982
Total Liabilities	240,839	311,790	332,764	327,725
Debt	131,300	187,257	187,544	187,602
Common Equity	335,542	325,751	319,361	323,604

Source: Banorte

Valuation and Financial metrics

	2018	2019	2020E	2021E
EV/EBITDA	11.8x	10.3x	9.9x	9.5x
P/E	24.3x	29.3x	28.2x	17.2x
P/BV	2.3x	2.3x	2.4x	2.3x
ROE	7.2%	6.0%	6.4%	10.6%
ROA	4.2%	3.1%	3.2%	5.2%
EBITDA/ Interest	6.3x	5.3x	5.6x	5.8x
Net Debt/EBITDA	1.1x	1.6x	1.5x	1.6x
Debt/Equity	0.4x	0.6x	0.6x	0.6x

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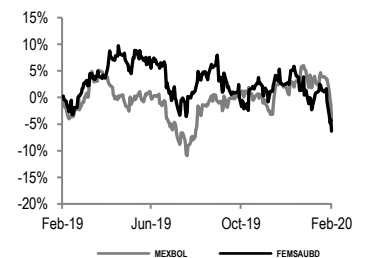
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BUY

Current Price	\$163.40
PT 2020	\$211.00
Dividend 2020e	4.6
Dividend Yield (%)	2.8%
Upside Potential	31.9%
Max – Min LTM (\$)	191.42 – 163.4
Market Cap (US\$m)	29,210.4
Shares Outstanding (m)	3,578
Float	60%
Daily Turnover US\$m	535.9
Valuation metrics TTM	
FV/EBITDA	10.3x
P/E	29.3x

Relative performance to Mexbol LTM



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FEMSA – Results 4Q19

MXN, million

Concept	4Q18	4Q19	Var %	4Q19e	Diff% vs Estim.
Revenue	125,097	132,289	5.7%	135,170	-2.1%
Operating Income	13,046	13,618	4.4%	14,483	-6.0%
Ebitda	18,128	21,114	16.5%	21,443	-1.5%
Net Income	10,593	4,793	-54.8%	7,809	-38.6%
Margins					
Operating Margin	10.4%	10.3%	-0.1pp	10.7%	-0.4pp
Ebitda Margin	14.5%	16.0%	1.5pp	15.9%	0.1pp
Net Margin	8.5%	3.6%	-4.8pp	5.8%	-2.2pp
EPS	\$2.96	\$1.34	-54.8%	\$2.18	-38.6%

Income Statement (Million pesos)

Year	2018	2019	2019	Change	Change
Quarter	4	3	4	% YoY	% QoQ
Net Revenue	125,097	130,470	132,289	5.7%	1.4%
Costs of goods sold	76,133	81,587	80,300	5.5%	-1.6%
Gross profit	48,963	48,883	51,989	6.2%	6.4%
General expenses	35,290	36,149	37,290	5.7%	3.2%
Operating Income	13,046	12,633	13,618	4.4%	7.8%
Operating Margin	10.4%	9.7%	10.3%	(0.1pp)	0.6pp
Depreciation	5,082	7,144	7,497	47.5%	4.9%
EBITDA	18,128	19,777	21,114	16.5%	6.8%
EBITDA Margin	14.5%	15.2%	16.0%	1.5pp	0.8pp
Interest Income (Expense) net	534	(1,009)	(5,156)	N.A.	410.7%
Interest expense	2,629	3,514	3,665	39.4%	4.3%
Interest income	821	943	702	-14.5%	-25.5%
Other income (expense)	(15)	(51)	8	N.A.	N.A.
Foreign exchange gain (loss)	2,357	1,613	(2,201)	N.A.	N.A.
Unconsolidated subsidiaries	1,290	1,768	1,408	9.2%	-20.3%
Income before taxes	15,098	11,611	8,450	-44.0%	-27.2%
Income taxes	3,569	3,391	2,985	-16.4%	-12.0%
Discontinued operations	2,790				
Consolidated Net Income	14,319	9,613	6,076	-57.6%	-36.8%
Non-controlling interest	3,726	2,339	1,283	-65.6%	-45.1%
Net Income	10,593	7,274	4,793	-54.8%	-34.1%
Net Margin	8.5%	5.6%	3.6%	(4.8pp)	(2.0pp)
EPS	2.960	2.033	1.340	-54.8%	-34.1%

Balance Sheet (Million pesos)

	2018	2019	2019	Change	Change
				% YoY	% QoQ
Total Current Assets	177,607	196,936	172,579	-2.8%	-12.4%
Cash & Short Term Investments	62,047	97,851	65,562	5.7%	-33.0%
Long Term Assets	398,774	442,600	464,962	16.6%	5.1%
Property, Plant & Equipment (Net)	108,602	111,155	114,513	5.4%	3.0%
Intangible Assets (Net)	107,183	104,521	104,483	-2.5%	0.0%
Total Assets	576,381	639,536	637,541	10.6%	-0.3%
Current Liabilities	101,464	129,563	136,534	34.6%	5.4%
Short Term Debt	14,079	28,146	35,737	153.8%	27.0%
Accounts Payable	65,669	72,561	76,676	16.8%	5.7%
Long Term Liabilities	139,375	173,027	175,256	25.7%	1.3%
Long Term Debt	117,222	151,267	151,520	29.3%	0.2%
Total Liabilities	240,839	302,590	311,790	29.5%	3.0%
Stockholders' Equity	335,542	336,946	325,751	-2.9%	-3.3%
Non-controlling interest	78,489	77,364	73,762	-6.0%	-4.7%
Total Equity	257,053	259,581	251,988	-2.0%	-2.9%
Liabilities & Equity	576,381	639,536	637,541	10.6%	-0.3%
Net Debt	69,253	81,562	121,695	75.7%	49.2%

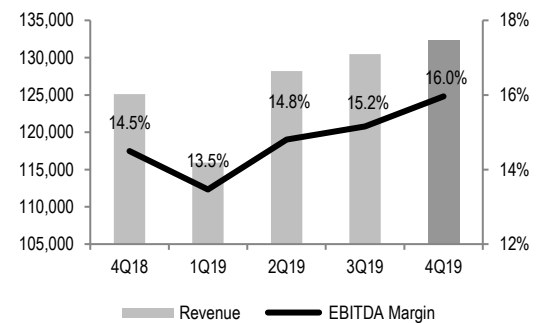
Cash Flow

CF from Operating Activities	16,224.7	15,598.6	12,626.7
CF from Investing Activities	6,670.1	13,535.2	(26,174.9)
CF from Financing Activities	(19,121.2)	(2,427.4)	(15,746.1)
FX effect on cash	4,107.9	672.0	(2,994.2)
Change in Cash Balance	7,881.5	27,378.4	(32,288.6)

Source: Banorte, MSE.

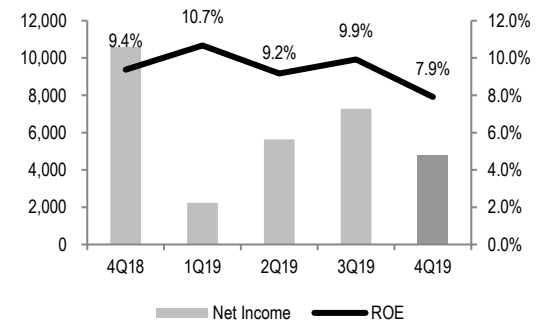
Revenue & EBITDA Margin

MXN, million



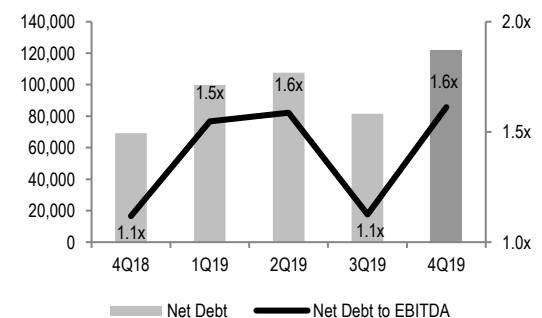
Net Income & ROE

MXN, million



Net Debt & Net Debt to EBITDA ratio

MXN, million



Performance by Division

Proximity Division					
	4Q18	Margin	4Q19	Margin	% y/y
Ticket	\$34.5		\$37.2		7.8%
Traffic	21.8		21.3		(2.1)
SSS*	\$751.9		\$793.2		5.5%
Revenues	\$43,357		\$47,941		10.6%
EBITDA	\$7,708	17.8%	\$8,655	18.1%	12.3%

Health Division					
	4Q18	Margin	4Q19	Margin	% y/y
SSS*	\$1,456.7		\$1,278.5		(12.2%)
Revenues	\$13,343		\$15,009		12.5%
EBITDA	\$1,407	10.5%	\$1,508	10.0%	7.2%

Fuel Division					
	4Q18	Margin	4Q19	Margin	% y/y
Price per lt	\$17.7		\$17.8		0.5%
Volume	447.9		421.4		(5.9%)
SSS*	\$7,921.5		\$7,485.6		(5.5%)
Revenues	\$12,636		\$12,235		(3.2%)
EBITDA	\$457	3.6%	\$511	4.2%	11.9%

Coca – Cola Femsá					
	4Q18	Margin	4Q19	Margin	% y/y
Volume	871.7		889.9		2.1%
Revenues	\$50,166		\$51,735		3.1%
EBITDA	\$10,396	20.7%	\$9,391	18.2%	(9.7%)

Consolidated					
	4Q18	Margin	4Q19	Margin	% y/y
Revenues	\$125,097		\$132,289		5.7%
EBITDA	\$20,731	16.6%	\$21,114	16.0%	1.8%

*SSS = Same-store sales considering units that have been operating for more than 12 months

Certification of Analysts.

We, Gabriel Casillas Olvera, Alejandro Padilla Santana, Delia María Paredes Mier, Juan Carlos Alderete Macal, Manuel Jiménez Zaldívar, Marissa Garza Ostos, Tania Abdul Massih Jacobo, Francisco José Flores Serrano, Katia Celina Goya Ostos, Santiago Leal Singer, José Itzamna Espitia Hernández, Valentin III Mendoza Balderas, Víctor Hugo Cortes Castro, Hugo Armando Gómez Solís, Miguel Alejandro Calvo Domínguez, Luis Leopoldo López Salinas, Leslie Thalía Orozco Vélez, Gerardo Daniel Valle Trujillo, Jorge Antonio Izquierdo Lobato and Eridani Ruibal Ortega, certify that the points of view expressed in this document are a faithful reflection of our personal opinion on the company (s) or firm (s) within this report, along with its affiliates and/or securities issued. Moreover, we also state that we have not received, nor receive, or will receive compensation other than that of Grupo Financiero Banorte S.A.B. of C.V for the provision of our services.

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	Reference
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HOLD	When the share expected performance is similar to the MEXBOL estimated performance.
SELL	When the share expected performance is lower than the MEXBOL estimated performance.

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History of PT and ratings

Stock	Date	Recommendation	PT
FEMSA UBD	29/11/2019	Buy	\$211.00
FEMSA UBD	04/4/2019	Hold	\$192.00

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